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Review of the efficiency of the administrative and financial functioning of the United Nations

United Nations procurement activities

Report of the Secretary-General

Summary

The previous comprehensive report on United Nations procurement activities (A/64/284) provided information on the implementation of the procurement reform agenda proposed by the Secretary-General in his reports A/60/846/Add.5 and Corr.1 and A/62/525. The report further outlined in detail in its addenda the proposed governance structure of the Secretariat procurement function (A/64/284/Add.1) and the concept of sustainable procurement (A/64/284/Add.2), which highlighted the achievements and challenges of the Secretariat procurement function.

The Advisory Committee on Administrative and Budgetary Questions commented on document A/64/284 and on the Secretary-General's procurement reform initiatives in its report to the General Assembly (A/64/501). The General Assembly, in its resolution 65/261, requested the Secretary-General to submit an updated comprehensive report on procurement activities for its consideration at the first part of its resumed sixty-seventh session. It also decided to consider further the reports referenced in the resolution at the first part of its resumed sixty-seventh session.

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Contents

		Page
I.	Introduction	3
II.	Strengthening the internal control mechanism of the United Nations procurement function	3
	A. Governance	3
	B. Information technology initiatives	8
	C. Ethics, integrity and conflict of interest	9
	D. Training and professionalization of staff	10
III.	Optimization of the acquisition and procurement management process	11
	A. Key initiatives in the procurement function	11
	B. Principle of best value for money	13
	C. Vendor management and outreach	14
	D. Partnership on procurement activities with other organizations within the United Nations system: "One United Nations" procurement concept	18
IV.	Strategic management of United Nations procurement	19
	A. Umoja	19
	B. Increasing procurement opportunities for vendors from developing countries and countries with economies in transition	20
	C. Procurement Network of the High-level Committee on Management	20
	D. Sustainable procurement: need for consideration	21
V.	Conclusions and recommendation	22
Annexes		
I.	Procurement volume, 2007-2011	23
II.	Procurement posts and value of purchase orders as a function of approved posts, 2007-2011	24
III.	Cost-benefit analysis of the Regional Procurement Office	25
IV.	Implementation of key performance indicators	28
V.	Change in solicitation types for long-term air charter tenders	30

I. Introduction

1. There has been a significant increase in the volume of procurement conducted at the United Nations Secretariat, as illustrated in annex I. The procurement volume for the Secretariat increased from $2,134,442,778 in 2007 to $3,468,829,320 in 2011, a 63 per cent increase as a result of the expansion in peacekeeping operations, the capital master plan, and Umoja. Annex I shows that the volume of procurement at United Nations Headquarters increased by 72 per cent, from $972.8 million in 2007 to $1.668 billion in 2011. Procurement volume of peacekeeping missions increased by 62 per cent, from $931.4 million in 2007 to $1,505.5 million in 2011.

2. This increase in procurement volume was not proportionately matched by an increase of resources. On the contrary, the United Nations procurement function, while improving internal controls, has been doing more with less, as evidenced by staffing statistics. Annex II below illustrates staffing trends in procurement in the Secretariat from 2007 to 2011. Staffing in the Procurement Division has increased by 11.5 per cent, while the procurement volume has increased by 72 per cent. In comparison, procurement staffing levels at field missions have increased by 13 per cent, with an increase of 61 per cent in procurement volume at the mission level.

3. Notwithstanding the above, the Procurement Division has continued to adopt a more strategic approach to procurement in order to meet end user requirements. This has been achieved through:

- Structural changes to the Procurement Division, including the creation of the Regional Procurement Office as a pilot
- The establishment of global complex high-value contracts essential for the missions operations
- Critical review and enhancement of accountability and delegation of authority while strengthening internal control mechanisms
- Improved sourcing, including further enhancing business opportunities for vendors from developing countries and countries with economies in transition
- Improving information technology systems in preparation for the implementation of Umoja
- A comprehensive training programme leading to certification.

4. The measures above have been implemented while ensuring that internal control mechanisms are adhered to and the fairness, transparency and integrity of the procurement function are maintained.

II. Strengthening the internal control mechanism of the United Nations procurement function

A. Governance

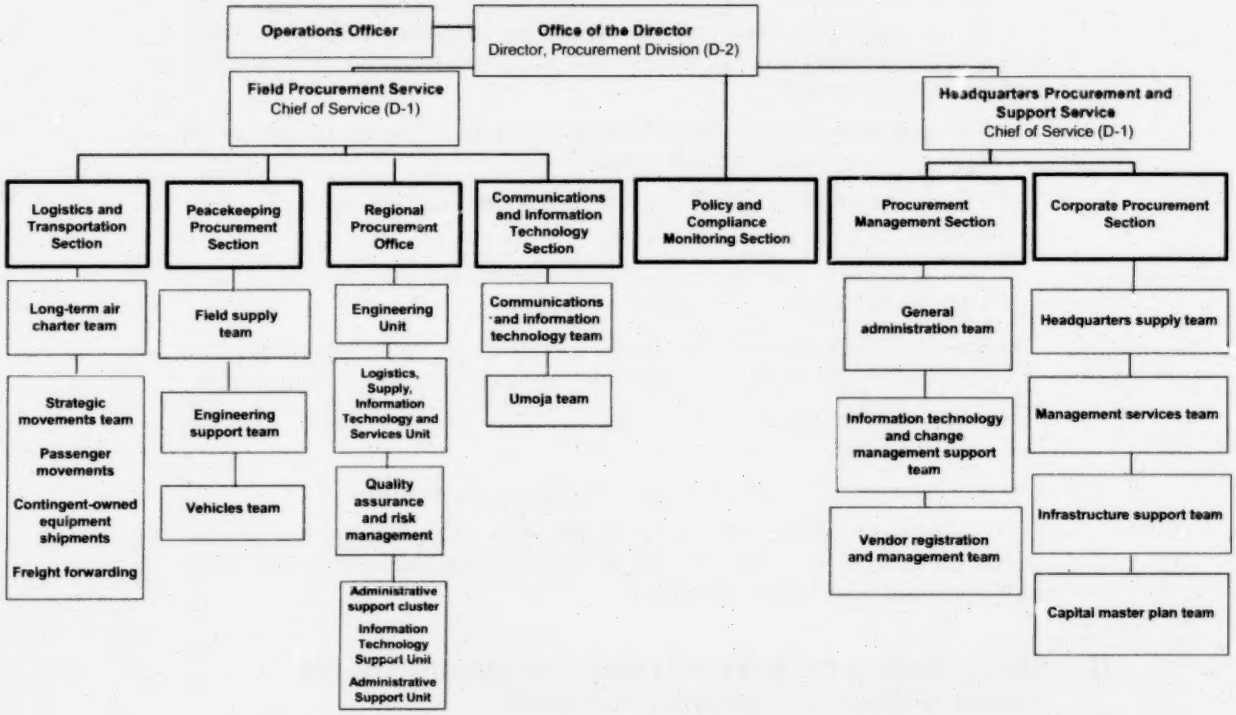
Restructuring of the Procurement Division

5. Further to the restructuring of the Procurement Division outlined in the previous report (A/64/284), the Division has continued to evolve in order to better

meet end user requirements. The new organizational structure of the Division became effective as at 16 July 2012, as shown in figure I below. In view of the imminent conclusion of the capital master plan, its procurement team has integrated with the infrastructure support team to provide a more holistic approach to facilities procurement at Headquarters.

6. There has been a significant increase in the volume of complex technology and communications requirements since the most recent comprehensive report on procurement activities of the United Nations. The continued evolution of the Umoja solution has also increased demand in consulting and technology requirements and the Procurement Division anticipates the increase in complexity to be ongoing. Owing to the fact that the growth in technology procurement has increased by 43 per cent over the past five years with current trends showing further increase, the Procurement Division has established the communications and information technology support team as a new section in its organizational structure in order to meet this increased demand.

Figure I



Regional Procurement Office in Entebbe, Uganda

Establishment of the Regional Procurement Office

7. As stated in the report of the Secretary-General on procurement governance arrangements within the United Nations (A/64/284/Add.1), on 15 July 2010, the Procurement Division established the Regional Procurement Office in Entebbe as a

Training

11. The Regional Procurement Office provides for an improved capacity to strengthen career development and learning opportunities resulting in a highly capable and competent procurement workforce. The Office offers its staff a direct liaison to and guidance from the Procurement Division, which allows for strengthening procurement skill sets and expertise. In addition, staff gains broader experience by undertaking procurement for multiple missions simultaneously. In its role as a centre of excellence in the region, the Office has provided training for mission personnel.

Business seminars and vendor registration

12. To increase the number of vendors from the region, the Regional Procurement Office has conducted more than 10 business seminars within the region. As of the beginning of October 2012, the Office has registered 564 vendors with the Procurement Division, of which 376 are from developing countries and countries with economies in transition. The Office has provided the opportunity for vendors to visit the Office for assistance with their United Nations Global Marketplace registration process.

13. The cost-benefit analysis of the Regional Procurement Office is contained in annex III. In view of its successful implementation during the pilot phase, the Procurement Division has expanded the services of the Regional Procurement Office in Entebbe to include all West African peacekeeping missions.[2] It is thus recommended that the General Assembly take note of the Regional Procurement Office in Entebbe as an integral part of the Procurement Division.

Accountability and delegation of authority

14. Following the recommendation of the Board of Auditors (see A/63/5 (Vol. I)) and taking into account inflation, a client satisfaction survey and the fact that the previous review of the threshold for delegation of authority was conducted in 1996, on 13 August 2008 the Assistant Secretary-General for Central Support Services increased the delegation of authority of the Under-Secretary-General for Field Support to $500,000. On 1 October 2008, the delegation of authority of the Director of the Procurement Division was also increased to $500,000 (in respect of procurement actions under financial rule 105.16 (awards under waiver from competitive bidding), the applicable threshold is $300,000). Experience demonstrates that as a result, 1,425 cases were able to be managed in a more expeditious manner, leading to quicker service delivery to the end user, such as allowing the local missions to utilize the local committee on contracts mechanism as the primary review authority closer to the local context, while maintaining internal controls and achieving best value for money.

15. The revised delegation of authority thresholds entail strengthened internal controls as a result of increased reporting requirements for procurement undertaken under the authority of the Procurement Division under financial rule 105.16,

[2] United Nations Mission in Liberia, United Nations Operation in Côte d'Ivoire, United Nations Mission for the Referendum in Western Sahara, United Nations Integrated Peacebuilding Office in Guinea-Bissau, United Nations Integrated Peacebuilding Office in Sierra Leone, United Nations Regional Office for Central Africa, United Nations Office for West Africa.

monthly reports of the procurement of core requirements, quarterly reporting of ex post facto cases, review by the Post Award Review Committee of contract amendments under the capital master plan valued at $500,000 to $5 million, systematic monitoring of procurement processes and related issues by means of notes to the respective stakeholders pursuant to the respective recommendations of the Headquarters Committee on Contracts, and so forth.

16. Effective 1 July 2012, the delegation of authority threshold of the Under-Secretary-General for Field Support and sub-delegated officials in the mission was increased to $500,000, with an increased financial threshold for mission procurement sections from $75,000 to $150,000, which reflects an increase in the threshold for the local committees on contracts. The increase in the thresholds for local delegation of authority enables efficiency gains through strategic focus by the local committee on contracts review process on the higher value and more strategic purchase cases. The increases are counterbalanced by detailed procedures and thresholds ensuring transparency and internal controls. In addition, reporting requirements have been enhanced, thus allowing for the monitoring and management of risks.

17. To improve internal controls and accountability over physical resource management, staff who perform procurement functions are required to be technically cleared by the Assistant Secretary-General for Central Support Services, in accordance with Secretary-General's bulletin ST/SGB/2005/7, as a part of the designation process.

Compliance monitoring

18. Following the establishment of the Policy and Compliance Monitoring Section in 2008, the Procurement Division implemented a robust compliance monitoring programme ensuring adherence to the Financial Regulations and Rules in procurement at Headquarters and field locations through procurement assistance visits, peer-to-peer guidance, discussions at the annual conferences of the Chief Procurement Officers and so forth, including undertaking compliance reviews of the Procurement Division processes and procedures at Headquarters. In parallel to the present report, attention is drawn to paragraph 30 of General Assembly resolution 66/265, in which the Assembly entrusted the Office of Internal Oversight Services (OIOS) to report on the findings and recommendations of the comprehensive audit evaluation, which is in the draft stage at the time of writing the present report, and is expected to be concluded in mid-January 2013, at which time Procurement Division will be in a position to provide the requested inputs on the proposed actions to address such findings and recommendations in an addendum to the present report.

Headquarters Committee on Contracts

Administrative instruction on committees on contracts

19. The Headquarters Committee on Contracts is an integral part of internal control in the acquisition process and serves as an advisory body for procurement cases above a certain threshold. The Under-Secretary-General for Management issued an administrative instruction (ST/AI/2011/8) for the purpose of defining the terms of reference of review committees on contracts at Headquarters, offices away from Headquarters, regional commissions and other offices and field missions of the

United Nations. The administrative instruction establishes a limit of $5 million for procurement by offices away from Headquarters under their delegated authority.

20. The Headquarters Committee on Contracts provides timely reviews of procurement cases submitted by the Procurement Division (including those for field missions) and processes cases on an expedited basis, including walk-in meetings, when requested. The Committee has decreased the average processing time for procurement cases over the past five years from 8.35 to 5.44 days. This has been achieved in part through the implementation of an updated electronic processing system.

B. Information technology initiatives

21. While the Procurement Division continues collaborating with the Umoja team to consolidate disparate information technology systems and processes into an enterprise resource planning system, it also has implemented several information technology initiatives.

22. Modifications to ProcurePlus and Mercury (used in field missions) have led to more accurate contract expenditure tracking, the introduction of an alert system of contract expenditures and duration and quarterly reporting on sole source procurement, all of which contribute positively to the Secretariat business processes while further strengthening internal controls. In order to further improve reporting and internal controls, the Procurement Division works diligently in enhancing its existing information systems with minimal expenditures to external vendors while awaiting the full implementation of Umoja in 2015.

23. The following are information technology project initiatives undertaken by the Procurement Division:

(a) **Key performance indicators**. In line with the recommendations of the Advisory Committee on Administrative and Budgetary Questions in paragraph 11 of its report (A/64/501), the Procurement Division has initiated the establishment of key performance indicators. The indicators were developed in line with industry best practices and provide greater transparency on the efficiency and effectiveness of the work of the Division. While accurately measuring the output of procurement staff is challenging owing to the complexity of tasks and the complexity of measuring quality and owing to the interdependency of other stakeholders, the Secretary-General recognizes the importance of key performance indicators. Annex IV provides a description of the key performance indicators and the status of the implementation. Thus far, the Procurement Division has implemented 8 indicators relating to efficiencies in the procurement process, sourcing and effectiveness, and is in the process of developing additional 13 indicators in these areas. The implementation of the remaining key performance indicators is dependent on the finalization of Umoja;

(b) **United Nations procurement mobile application**. As part of the enhanced supplier outreach and client orientation efforts of the Procurement Division, a mobile application for Android, iOS and BlackBerry has been made available to the vendor community worldwide. The United Nations procurement application offers real-time access to information relating to business opportunities and strategic sourcing, such as requests for expression of interest, business seminars, tenders, statistics, bids and contract awards. The application gives vendors

a tool for sharing and transferring information internally. The launch of the application was established in a cost-effective manner by leveraging existing internal human resources, existing back-end data processing facilities and a low-cost development effort;

(c) **Electronic procurement**. While the majority of the processes of the Procurement Division are implemented using electronic information systems, the tendering process remains mainly paper-based, whereby proposals are received using mail and facsimile. The Procurement Division is planning to implement electronic procurement in 2013, which will provide the following benefits: increased competition, owing to the addition of a more efficient and cost-effective option for vendors to submit bids; more efficient collaboration and sharing; and central storage of electronic bids that will result in easier access to documents, while ensuring proper safeguarding through access rights and improved security with audit trails. In addition, electronic tendering eliminates the need for vendors to consider submission delays, with the potential to reduce printing and storage requirements. It should be noted that the electronic tendering solution is a software separate from the Umoja system but will interface with the United Nations Global Marketplace and thus be compatible with the Umoja system.

C. Ethics, integrity and conflict of interest

24. It will be recalled that extensive processes and procedures have been implemented to enhance the probity and ethics of United Nations staff when dealing with vendors. These include the establishment of the Ethics Office, post-employment restrictions, financial disclosure, zero tolerance in gifts and hospitality, a whistle-blower protection policy and the Supplier Code of Conduct.

25. The following additional changes have also been introduced:

(a) **Definition of conflict of interest**. The Secretary-General approved a new definition of conflict of interest, which is promulgated in staff regulation 1.2 (m) of the Staff Regulations (ST/SGB/2012/1);

(b) **Independent procurement challenge system**. For the purpose of strengthening internal control measures and promoting ethics, integrity, fairness and transparency in the procurement process, an independent procurement challenge system was established by creating the Award Review Board in November 2010 at Headquarters as a pilot project. The purpose of the Review Board is to offer unsuccessful bidders who participated in tenders the opportunity of filing a procurement challenge on a post-award basis and to render independent advice on the merits of the procurement challenge to the Under-Secretary-General for Management, who takes the final administrative decision on the matter. The addendum to the present report (A/67/683/Add.1) provides information on the implementation of the pilot project and recommendations for its extension.

D. Training and professionalization of staff

Training needs analysis

26. One of the most significant components of the procurement reform is the introduction of continuous training for procurement staff and the professionalization of the procurement function within the Organization. In 2007, the Procurement Division launched a one-week basic-level procurement training programme entitled "The fundamentals of procurement", which provided training to 1,366 staff members worldwide in four main courses: 181 at Headquarters; 844 at the field missions; 309 at offices away from Headquarters; and 32 at United Nations information centres. The training was mandatory for procurement staff and was also provided to staff members performing procurement-related functions, such as requisitioners.

27. The Secretary-General is pleased to note that the introduction of the training yielded significant benefits, providing the multidisciplinary procurement workforce with a standard or baseline that resulted in greater compliance with the applicable rules, regulations, procedures and principles governing United Nations procurement worldwide.

28. The Procurement Division has developed a centralized database that captures all information pertaining to mandatory training requirements for staff. The Division also maintains records of the costs associated with external training.

29. In accordance with the recommendations stemming from a comprehensive training needs assessment, the Secretariat adopted in 2009 a three-tiered training programme. The first phase of the programme was launched in 2010, with the roll-out of the online Procurement Training Campus offering training, examination and certification in the following four courses: ethics and integrity in procurement; best value for money; fundamentals of procurement; and overview of the Procurement Manual.

30. More than 3,400 staff members have registered for the training and successful completion of courses has become mandatory not only for procurement staff, but also for staff with fiduciary responsibilities prior to their designation or delegation of procurement authority, as appropriate. To date, 3,304 certificates have been issued to staff members in the United Nations common system, as follows: 2,603 from the field missions; 225 from offices away from Headquarters; 323 at Headquarters; and 153 from other offices and agencies.

31. The Procurement Division continues to implement the second and third phases of the programme with a view to procurement staff being certified in their field. The second phase will consist of advanced courses for requisitioners, procurement staff and contract managers, including acquisition planning and procurement strategy; the development of requirements; the development of technical and commercial evaluation criteria; contractual issues in purchasing; and contract management. The third phase has already been implemented, with the establishment of a dedicated training academy, which allows staff to receive online advanced training leading to professional certification by an internationally accredited procurement training institution.

Impact of procurement training

32. While it is not possible to measure the impact of training and professionalization initiatives in a quantitative or empirical manner, it is clear that by strengthening the internal control framework for the procurement function through training and professionalization, the Organization mitigates the risk and impact of inefficiencies and ethical and other violations. In addition, the training has been beneficial for incoming new staff members who are external to the United Nations.

III. Optimization of the acquisition and procurement management process

A. Key initiatives in the procurement function

Systems contracts

33. Further to the comprehensive report of the Secretary-General on United Nations procurement activities (A/64/284), the Secretariat continues to ensure that the contractor's selection process is based on life-cycle cost analysis, with increased attention to estimated shipping costs, as applicable, with a view also to reducing delivery timelines and therefore reducing inventory-related costs.

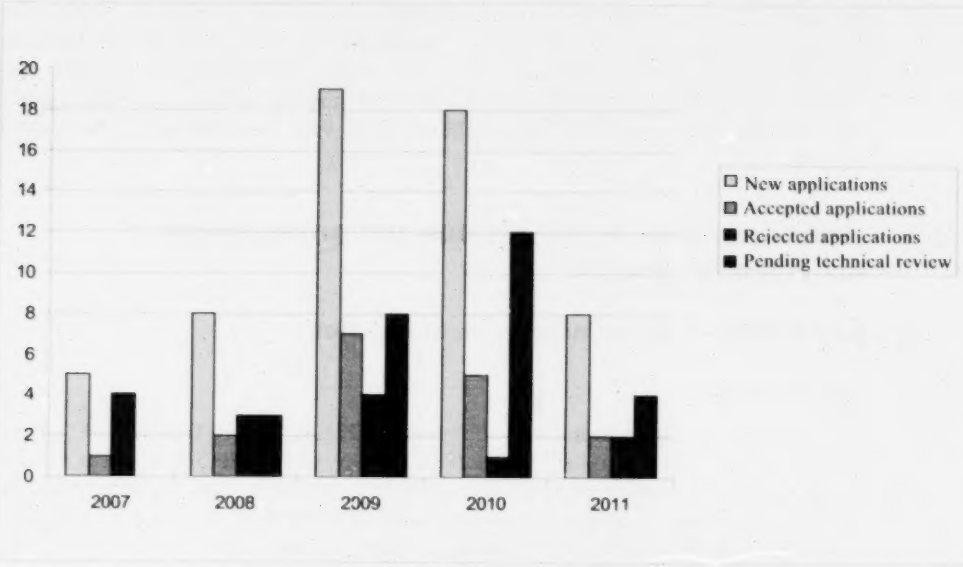
34. In 2011, 73 per cent of field missions' procurement budget was utilized using contracts established by the Procurement Division, an increase from 63 per cent in 2007. This reflects the move of the Procurement Division, in line with global field support strategy, towards a more strategic role by establishing more systems contracts and thereby allowing procurement officers at Headquarters to concentrate on strategic procurement, while procurement officers in field missions can concentrate on essential operational local procurement.

New developments for air charters

35. In line with the global field support strategy, the Procurement Division, in coordination with the Department of Field Support, in September 2012 established a widebody long-range jet contract for troop rotations. Cost savings have been achieved owing to the reduction in positioning costs by sequencing movements one after the other. In addition, operational efficiencies were gained in view of the reduction in the number of empty flight legs.

36. The Procurement Division continues its drive to expand its air charter vendor database to increase competition. Between 2007 and 2011, 58 new applications for charter vendors were received, of which 17 were found to be commercially and technically acceptable (see figure II). In addition, the Procurement Division conducts regular informative seminars to provide practical advice on how to submit technically acceptable bids.

Figure II
Trend of air charter registration, 2007-2011



37. The Procurement Division, in coordination with the Department of Field Support, is seeking expert advice from the International Civil Aviation Organization (ICAO) to streamline the transition of the solicitation process for air charter movements from invitation to bid to request for proposal. The aim of this project is to ensure that world best practices are benchmarked and that such practices are then incorporated by the Procurement Division. Among others, the deliverables are scope of requirements, evaluation criteria, price matrix, benchmarking analysis, and so forth. The ultimate goal of the project is to ensure not only fast service delivery to the end user in a fair and transparent manner but also that the Organization achieves best value for money (see annex V).

Global field support strategy and regional approach

38. In order to address the challenges that the Organization has faced during previous decades in providing logistical, administrative, information and technology support for peacekeeping operations, the Department of Field Support initiated and developed a global field support strategy, which was approved by the General Assembly in its resolution 64/269. The strategy is a strategic reform initiative that was created in the Secretariat to facilitate shorter mobilization and sustainability of peacekeeping and special political missions in order to protect and reinforce vital peace processes mandated by the Security Council. Central to the global field support strategy is the establishment of the Regional Service Centre in Entebbe and the transition of certain prescribed functions to the Global Service Centre in Brindisi, Italy, and Valencia, Spain, with the goal of facilitating proximity and responsiveness to the mission-critical, location-specific support functions of field missions. It should be noted that the central procurement functions in support of peacekeeping missions remain with the Procurement Division; however, in order to align with the global field support strategy, the Procurement Division has decided to

create, on a pilot basis, the Regional Procurement Office, which is also located in Entebbe, aligning the regional approach taken by the Department of Field Support. Thus, both the Regional Procurement Office and the Regional Service Centre benefit from the geographical proximity, also utilized during the quarterly meetings of the Regional Procurement Office Steering Committee. That Steering Committee, which governs the approval process for joint acquisition planning, holds its quarterly meetings in parallel with the sessions of the Regional Service Centre Steering Committee. The Regional Procurement Office has been successful in obtaining cost savings owing to economies of scale by consolidating the requirements of field missions in East and Central Africa into a joint acquisition plan with the aim of establishing regional system contracts and thereby improving the efficiency of procurement. Further benefits of the regional office include an increased ability to focus on strategic issues, conduct thorough performance monitoring and ensure resource stewardship at Headquarters.

Client orientation

39. The Department of Management conducted various client satisfaction surveys, whereby 85 per cent of respondents were from the field. The surveys demonstrated that field missions would like more flexible and timely procurement. As a result, the Office of Central Support Services has taken several measures, some of which are included in the present report, such as the increase in thresholds of delegated procurement authority in 2008, a major update to the Procurement Manual in consultation with field missions and agencies, the launch of the procurement online training courses, the launch of the requisition tracking tool and so forth. In September 2011, the Office of Central Support Services, with the cooperation of the Department of Field Support, conducted a follow-up workshop with directors of missions with the aim of identifying procedures or processes that can be improved, and thereby remedying some of the concerns expressed by the same group of clients. This resulted in the following decisions: establishing a task force for the finalization of a contract management policy for the field missions; establishing a surge capacity for engineering in the United Nations Logistics Base; providing unified standard operating procedures for vendor registration and management for field missions in line with the practices at Headquarters; harmonizing to the extent possible the acquisition of security equipment, and so forth. In addition, as a result of the workshop, the Procurement Division, in liaison with the Department of Field Support, has implemented contract alerts in Mercury in order to enhance contract administration in field missions.

B. Principle of best value for money

40. According to financial regulation 5.12, the following general principles shall be given due consideration when exercising the procurement functions of the United Nations:

(a) Best value for money;

(b) Fairness, integrity and transparency;

(c) Effective international competition;

(d) The interest of the United Nations.

Best value for money is defined as the optimization of whole-life costs and quality needed to meet the user's requirements, while taking into consideration potential risk factors and the availability of resources.

41. In order to determine which proposal is the most responsive, in accordance with financial rule 105.15 (b), the Procurement Division uses a weighted evaluation technique as a tool to evaluate proposals received in response to requests for proposal. The weighted scoring method is applied by many Member States and international organizations and is detailed in the United Nations Procurement Practitioner's Handbook.

42. The principle of best value for money applies to all solicitation methods, including invitations to bid and requests for proposals in accordance with financial rule 105.15 (a) and (b). The invitation to bid is typically used for the procurement of simple goods, which have clearly defined and firm specifications, allowing for the use of compliance criteria. The invitation to bid is usually not considered suitable if a service element is included in the requirement. Thus, in accordance with financial rule 105.15 (a), the procurement contract shall be awarded to the qualified bidder whose bid substantially conforms to the requirements set forth in the solicitation documents and is evaluated to be the one with the lowest cost to the United Nations when a formal invitation to bid has been issued. A request for proposals shall be used for the procurement of goods, services or works that cannot be quantitatively or qualitatively defined in sufficient detail to allow for the use of an invitation to bid and compliance criteria only. Thus, in accordance with financial rule 105.15 (b), the procurement contract shall be awarded to the qualified proposer whose proposal, all factors considered, is the most responsive to the requirements set forth in the solicitation documents, when a formal request for proposal has been issued.

43. Depending on the complexity of the requirements, normally the relative weights given to commercial and technical criteria, respectively, are 40 and 60 per cent, but other percentages can be considered when properly justified. It should be noted that additional guidelines on using the weighted scoring method were issued by the Procurement Division in March 2009. Further, the Procurement Division has continuously provided training and guidance to procurement practitioners on the use of the best value for money principle.

C. Vendor management and outreach

Business seminars

44. In a continuing effort to promote procurement opportunities for vendors in developing countries and countries with economies in transition, the Procurement Division increased the number of business seminars in these countries. The Procurement Division has a representative available to assist vendors starting their registration with the United Nations Global Marketplace at the business seminar site. As a result, there has been a consistent annual increase in the number of vendors from these countries that registered with the Procurement Division, as shown in table 2 below.

Table 2
Volume of business seminars and registration of new vendors, 2007-2011

	2007	*2008*	*2009*	*2010*	*2011*
Number of business seminars (for developing countries and countries with economies in transition)	18	22	27	35	35
Number of new vendors registered (from developing countries and countries with economies in transition where business seminars took place)	26	37	92	170	212

45. All business seminars are being posted in the Communities of Practice portal so that all United Nations funds, programmes and specialized agencies (United Nations Development Programme (UNDP), World Food Programme, United Nations Children's Fund (UNICEF), Food and Agriculture Organization of the United Nations (FAO), World Health Organization (WHO), etc.) are informed about the upcoming business seminars. Approximately 28 per cent of the seminars undertaken since 2009 were jointly conducted with other United Nations entities.

46. Business seminars organized in collaboration with Member States play an integral role in the dissemination of information on procurement activities of the Organization (see table 3 below).

Table 3
Overall business seminar activities conducted by the Organization, 2008-2011

	2008			*2009*			*2010*			*2011*		
Number of	*D*	*I*	*Total*	*D*	*I*	*Total*	*D*	*I*	*Total*	*D*	*I*	*Total*
Events	22	3	25	27	14	41	35	8	43	35	16	51
Vendors in attendance	799	46	845	1 353	454	1 807	2 316	426	2 742	2 133	855	2 988
Vendors per event (average)	35	9	30	50	32	44	66	53	64	61	53	59
Joint events organized with other agencies	6	–	6	14	5	19	4	1	5	11	5	16

Abbreviations: D, business seminar venues in developing countries and countries with economies in transition; I, business seminar venues in industrialized countries.

Streamlining of vendor registration process

47. Currently, the Secretariat has a decentralized framework and multiple vendor databases. The Procurement Division's core database has approximately 8,000 entries, of which only a fraction is currently in the United Nations Global Marketplace, which is managed by the United Nations Office for Project Services in Copenhagen. In addition, there are a series of other unlinked vendor databases in the United Nations Offices at Geneva, Vienna and Nairobi, the regional commissions and individual peacekeeping missions and special political missions. The total of the registered vendors is estimated at approximately 100,000 and it is estimated that this number entails significant duplications across these databases, which are maintained individually. Under a revised arrangement, reflected in the "to be" processes approved for the Umoja design, all these separate databases will be combined into a single global database managed by the Office of Central Support Services.

48. As outlined in paragraph 19 of the report of the Secretary-General (A/64/284), a streamlined vendor registration process was implemented in 2008 consisting of four levels. The revised registration criteria, mainly for level 1, are supportive of small and local businesses, in particular from developing countries and countries with economies in transition, as they allow such vendors to select a level of registration that matches their financial and operational capacity. This approach allows vendors with limited resources to access business opportunities in low-risk and low-value procurement with simplified registration procedures. As a result, there has been a significant increase in the number of vendors registered with the Procurement Division since 2009 (see table 4 below). Among the vendors registered and accepted in the Procurement Division, level 1 registrations accounted for 71 per cent, in line with the objective of attracting small and local businesses from developing countries and countries with economies in transition.

Table 4
Trends in vendor registration, 2007-2011

	2007	*2008*	*2009*	*2010*	*2011*
Registration of vendors from developing countries and countries with economies in transition	70	83	160	251	258
Percentage	20.59	22.93	26.36	26.65	32.58
Registration of vendors from industrialized countries	270	279	447	691	534
Total	**340**	**362**	**607**	**942**	**792**

49. United Nations Global Marketplace data demonstrated that of a total of 13,047 applications started in 2011, 7,607 (58 per cent) were not completed by the vendors. In order to facilitate the completion of vendor applications to register and in preparation for Umoja implementation, the Procurement Division has commenced the implementation of a new process in collaboration with the United Nations Global Marketplace. This process replaces the current structure of four registration levels with a new structure consisting of "Basic Registration" and "Qualifications (level 1/level 2)", with additional documentation being requested only from those vendors who are being considered for contracts with a value in excess of $40,000. It is envisaged that the further simplification of the registration levels will attract more vendors, especially from developing countries and countries with economies in transition.

50. In order to promote a common, harmonized and simplified vendor registration process among all United Nations Global Marketplace member organizations, the Secretariat is leading the implementation of the Global Marketplace vendor registration reform project, which is supported by the funding from the Harmonization of Business Practice Steering Committee of the High-level Committee on Management. The project is expected to be completed by September 2013. As a result, a simple basic registration procedure will be common to all United Nations Global Marketplace member organizations. By having a consolidated global database, the Secretariat will improve sourcing.

51. The introduction of the simplified and standardized process will further facilitate the updating and transfer of data of between 30,000 and 50,000 vendors into the United Nations Global Marketplace, enabling the transfer of all Secretariat vendors in the Global Marketplace onto the Umoja vendor master record and the creation of a single vendor database for the entire Secretariat.

Updating of United Nations Common Coding System

52. In order to facilitate the identification of procurement opportunities in the United Nations by vendors, it was then decided that the United Nations Standard Products and Services Code would be implemented to replace the United Nations Common Coding System. These changes were implemented in the United Nations Global Marketplace because the current system was cumbersome and did not accurately reflect goods and services available on the market. The Procurement Division is currently working with the United Nations Global Marketplace on the programming of the Global Marketplace portal to accommodate such changes.

Vendor Review Committee and Senior Vendor Review Committee

53. In order to ensure that consistent non-compliance and poor performance by vendors is recorded and that appropriate action is taken with respect to their status as a registered vendor with the Procurement Division, the Organization has established the Vendor Review Committee. The Committee is an internal body within the Office of Central Support Services that reviews (a) vendor registration applications in which the determination of eligibility and/or compliance with registration criteria requires additional review or special approval, and (b) cases for suspension, removal and reinstatement of vendors, with the exception of those cases which fall under the terms of reference of the Senior Vendor Review Committee.

54. In its resolution 61/246, the General Assembly took note of the report of the Secretary-General on procurement reform (A/60/846/Add.5 and Corr.1). In line with paragraphs 28 and 29 of that report, a Senior Vendor Review Committee was established on 15 June 2009, chaired by the Director of the Ethics Office with administrative support provided by the Procurement Division. The Committee was established for an initial trial period of one year as a pilot, which was subsequently extended. The purpose of the Senior Vendor Review Committee is to provide independent advice to the Under-Secretary-General for Management on proposed sanctions in cases of allegations of fraud, corruption or unethical behaviour on the part of vendors registered with the Secretariat. In 2010 the Committee received two cases; however, one case was considered to be outside the scope of the Committee and the other case was deemed to have insufficient evidence to make a recommendation. In several other situations, independent advice was requested from and provided by the Ethics Office directly.

55. In 2011, the High-level Committee on Management recommended that the United Nations system organizations consider aligning their practices with the model policy framework on vendor sanctions for agencies of the United Nations system. The framework consists of guiding principles (policy considerations), to be adopted and applied in accordance with the regulations and rules of each agency. The Organization is currently in the process of amending the terms of reference of the Senior Vendor Review Committee in full consultation with the Office of Legal

Affairs and OIOS with an implementation date in 2013 in order to align them with the model policy framework.

D. Partnership on procurement activities with other organizations within the United Nations system: "One United Nations" procurement concept

56. As requested in General Assembly resolution 61/246, with a view to achieving a structured level of collaboration and coordination, the Secretariat is involved in the activities of the Procurement Network of the High-level Committee on Management. Following a thorough analysis of the policies and practices of the United Nations organizations, the Procurement Network working group on the harmonization of procurement practices prepared a document entitled "Common United Nations procurement at the country level", which distinguishes the following options for common procurement:

(a) Using existing long-term agreements (also referred to as systems contracts) or contracts of other United Nations organizations;

(b) Establishing new long-term agreements for use by multiple United Nations organizations;

(c) Using the procurement services of other United Nations organizations;

(d) Procuring from another United Nations organization.

57. All options could be considered variants under the lead agency concept. While the last two options are focused primarily on procurement at the country level by small country offices with no or limited procurement capacity, the first two options are more relevant to the Secretariat.

58. For commonly used items with large procurement volumes, the Secretariat establishes long-term agreements available to other United Nations organizations on the United Nations Global Marketplace. The Secretariat uses long-term agreements of other organizations only when its own procurement volume is relatively small in comparison with the volumes of other organizations, such as contraceptives (United Nations Population Fund) and specialty vaccines (UNICEF).

59. Generally, existing long-term agreements are based only on the estimated need of the organization establishing the agreement. Harmonization of requirements through common specifications is essential, leading to aggregation of volumes and increased commercial leverage. In a note on procurement reform in the United Nations system, the Joint Inspection Unit in 2011 recommended the joint procurement of common goods and services. Thus, the Procurement Network of the High-level Committee on Management has initiated a project to explore the opportunities of collaborative procurement of vehicles on behalf of various organizations, including the Secretariat, UNDP, the United Nations Office for Project Services, the United Nations Industrial Development Organization, the Office of the United Nations High Commissioner for Refugees, the United Nations Relief and Works Agency for Palestine Refugees in the Near East, FAO and UNICEF.

60. Various offices away from Headquarters and regional commissions have undertaken common procurement activities that are focused on lowering the cost of commonly required goods and services resulting in efficiencies. For instance, the Geneva-based organizations of the United Nations system have established the Common Procurement Activities Group, which is focused on lowering the cost of commonly required goods and services for all participating organizations. Based on estimates in 2010, the Group achieved $40 million in savings, by collaborating on more than 14 procurement projects.

61. Recognizing the beneficial results of the local common procurement initiatives and taking into consideration the request of the General Assembly to improve the level of collaboration among the organizations of the United Nations, the Change Management Team included in its change plan a recommendation to expand the common procurement activities in each location to ensure cost efficiencies. A working group has been established at United Nations Headquarters to further explore opportunities for potential collaboration. As a first step, agencies had shared an overview of long-term agreements that are open for use by United Nations entities in New York.

62. The General Assembly, in its resolution 61/246, requested the Secretary-General to report to the Assembly on procurement management and to include in his report an assessment of the internal controls of the United Nations organizations and how they differ from those of the Procurement Division. As stated in the 2007 report on United Nations procurement activities (A/62/525), a survey was conducted by the Procurement Division on the adequacy of the existing internal control systems at four organizations of the United Nations system that offer potentially high collaboration opportunities with the Secretariat. The results of the survey indicated that, while there were minor variations in approach to the management of some aspects of the procurement process, the existing internal control mechanisms for procurement operations at the selected organizations basically mirrored those at the Secretariat.

IV. Strategic management of United Nations procurement

A. Umoja

63. The implementation of the new consolidated enterprise resource planning system, known as Umoja, will fundamentally improve, harmonize and modernize the existing workflow and business processes related to procurement in the United Nations Secretariat. Primarily, the Umoja system will consolidate all procurement activities under one information technology system. The acquisition process, captured under inventory management, will be closely integrated in Umoja with the financial commitment systems. In addition, the Procurement Division will have the strategic role of managing the vendor database for all organizational entities, and further allow even broader usage of systems contracts for such entities in view of the increased visibility afforded through Umoja.

B. Increasing procurement opportunities for vendors from developing countries and countries with economies in transition

64. The goods and services procured by the Procurement Division and field missions from developing countries and countries with economies in transition for Headquarters and peacekeeping missions from 2007 to 2011 are summarized in table 5.

Table 5
Volume of procurement from developing countries and countries with economies in transition versus total procurement, 2007-2011
(United States dollars)

	Procurement from developing countries and countries with economies in transition		
	Amount	*Percentage*	*Total procurement*
2007	993 594 945	52.18	1 904 258 090
2008	1 472 406 822	46.41	3 172 271 966
2009	1 411 132 862	40.45	3 488 416 446
2010	1 568 045 091	49.87	3 144 515 529
2011	1 735 600 216	54.69	3 173 746 133

65. While the procurement volume fluctuates yearly depending on the number and nature of requirements to support the Organization's mandates and activities, the figures for the five-year period shown in table 5 indicate a positive result of outreach activities of the Organization targeting vendors from developing countries and countries with economies in transition.

C. Procurement Network of the High-level Committee on Management

66. The Procurement Network of the High-level Committee on Management continues its activities of common interest within the United Nations system through its working groups established in the areas of harmonization, vendor management, professional development, supplier access and sustainable procurement. The Secretariat has been engaged in the activities of working groups, except for sustainable procurement, and contributed to the activities in these areas. Examples of outputs delivered by the Procurement Network include the model policy framework for vendor eligibility, the guidelines for organizing entities of multi-agency business seminars, the standardized table of contents for procurement manuals of United Nations organizations and reports on analysis of their financial regulations, rules, procurement manuals and surveys targeting users of the United Nations Global Marketplace, including vendors, and a compendium of procurement training programmes available within the United Nations system.

D. Sustainable procurement: need for consideration

67. As defined by the Procurement Network of the High-level Committee on Management, sustainable procurement integrates requirements, specifications and criteria that are compatible and in favour of the protection of the environment, of social progress and in support of economic development, namely by seeking resource efficiency, improving the quality of products and services and ultimately optimizing costs.

68. In this connection, the Secretary-General acknowledges that the Joint Inspection Unit, in recommendation 10 of its report entitled "Environmental profile of the United Nations system of organizations" (A/65/346), exhorted the executive heads of the United Nations system to establish in-house sustainable procurement policies and guidelines, taking account of the local conditions of the host country and the needs of the field offices.

69. In connection with the report of the Advisory Committee on Administrative and Budgetary Questions (A/64/501), the above-mentioned report of the Joint Inspection Unit and paragraph 96 of the outcome document of the United Nations Conference on Sustainable Development entitled "The future we want" (General Assembly resolution 66/288, annex), in which Member States called upon the United Nations system to improve the management of facilities and operations, by taking into account sustainable development practices building on existing efforts and promoting cost-effectiveness, the Secretariat noted the following initiatives by other United Nations organizations: the Procurement Network, with the support of Sustainable United Nations (led by the United Nations Environment Programme to promote environmental sustainability in the United Nations), started an initiative which launched awareness-raising and tool-development initiatives in sustainable procurement. Furthermore, UNDP has adopted sustainable procurement as a means of promoting sustainable development, thereby mitigating the risk of the inadvertent infringement of human rights, labour rights and adverse environmental impacts, while supporting local entrepreneurship, gender balance and women's empowerment, poverty eradication and good governance. A key element of the UNDP sustainable procurement initiative is the "green" continuum — a strategy to reduce the environmental impact of procuring goods and services by substituting products and services with environmentally preferred commodities in incremental steps.

70. During the past decade, UNICEF has also increased its commitment to the alignment of procurement with sustainable development. Under its general conditions, UNICEF conducts factory inspections of companies supplying its goods. In addition to adopting requirements that prohibit involvement by companies that produce anti-personnel mines or employ child labour, UNICEF also assesses waste management and environmental friendliness.

71. At the present time, the General Assembly has not endorsed the application of sustainable procurement criteria. The Secretariat has incorporated into the general conditions of contract, social aspects such as mandatory adherence with the Convention on the Rights of the Child, anti-mine provisions and measures against sexual exploitation. The Secretariat does not however include mandatory environmental criteria. For solicitations involving hazardous material, the Secretariat requires vendors to ensure health and environmental safety and proper

waste management in host countries as well as compliance with the environmental policy issued by the Department of Peacekeeping Operations and the Department of Field Support.

72. In the context of the present report, the Secretary-General deems it necessary to take into account the following environmental issues within the acquisition cycle applying a life-cycle approach: optimizing packaging, waste reduction and management, energy and water efficiency, as well as greenhouse emissions, provided that they do not become a challenge to the participation of developing countries and countries with economies in transition in United Nations procurement. This would greatly minimize the United Nations environmental footprint in the countries where the United Nations is deployed, as well as contributing to better interaction with and perception by the local communities by leading by example. The Secretary-General will continue to inform the Assembly regarding proposed initiatives in sustainable procurement.

V. Conclusions and recommendation

73. **The Secretary-General recognizes the importance of procurement in ensuring that the global taxpayers' funds are spent in an open, fair and transparent manner, while also recognizing the importance of having trained procurement professionals working for the Organization. The Procurement Division has continued to implement reform and strives to achieve world best practice in public sector procurement. In undertaking this task, it has ensured that it discharges its fiduciary duties in an open and transparent manner. It has made significant advances in vendor registration pertaining to developing countries and countries with economies in transition. Significant advances had been made in various areas such as internal controls, regionalization, governance, training; challenges remain in particular in the current economic environment. The establishment of the pilot Regional Procurement Office in Entebbe has greatly enhanced service delivery to the end user. The implementation of Umoja will also enhance the capacity, capability, processes and procedures within the procurement function. However, it would require significant efforts to implement these changes as Umoja will constitute a paradigm change in United Nations procurement.**

74. **The General Assembly is requested to take note of the present report.**

Annex I

Procurement volume, 2007-2011

(United States dollars)

	Purchase orders	*2007*	*2008*	*2009*	*2010*	*2011*
Total procurement[a] (A+B+C)	**Number**	**33 762**	**30 485**	**31 654**	**29 917**	**30 611**
	Value	**2 134 442 778**	**3 332 720 728**	**3 717 369 614**	**3 370 627 438**	**3 468 829 320**
A. Procurement Division	Number	3 947	4 191	4 317	3 524	3 170
	Value	972 837 033	1 740 212 928	2 025 856 747	1 733 377 108	1 668 179 748
B. Field missions	Number	16 688	17 387	17 569	17 466	17 512
	Value	931 421 058	1 432 059 038	1 462 559 699	1 411 138 422	1 505 566 386
C. Offices away from Headquarters, tribunals and commissions						
Economic Commission for Africa	Number	320	378	515	619	831
	Value	7 778 645	7 830 328	9 412 104	10 599 151	14 496 307
Economic Commission for Latin America and the Caribbean	Number	1 267	986	459	330	409
	Value	10 215 458	5 843 537	7 843 473	6 927 141	15 538 290
Economic and Social Commission for Asia and the Pacific	Number	2 357	727	903	601	690
	Value	10 128 277	7 496 361	13 936 690	8 262 897	8 876 775
Economic and Social Commission for Western Asia	Number	298	164	266	200	181
	Value	4 775 804	3 081 457	2 944 998	1 905 852	2 894 045
International Criminal Tribunal for Rwanda	Number	421	377	316	186	327
	Value	8 542 364	9 884 000	10 293 826	2 843 932	13 391 237
International Tribunal for the Former Yugoslavia	Number	506	350	411	287	248
	Value	29 860 340	29 522 738	31 173 860	48 184 477	5 256 925
United Nations Office at Geneva	Number	4 403	3 358	3 579	2 377	2 309
	Value	80 123 573	64 411 741	104 252 709	88 202 510	110 217 950
United Nations Office at Nairobi[b]	Number	1 857	1 379	1 543	3 022	3 774
	Value	56 372 191	16 033 748	33 253 130	44 960 912	111 504 056
United Nations Office at Vienna	Number	1 698	1 188	1 776	1 305	1 160
	Value	22 388 036	16 344 852	15 842 377	14 225 036	12 907 602
Subtotal, C		**230 184 688**	**160 448 762**	**228 953 168**	**226 111 909**	**295 083 187**

[a] Volume based on calendar years.

[b] Data include United Nations Human Settlements Programme and United Nations Environment Programme procurement.

Annex II

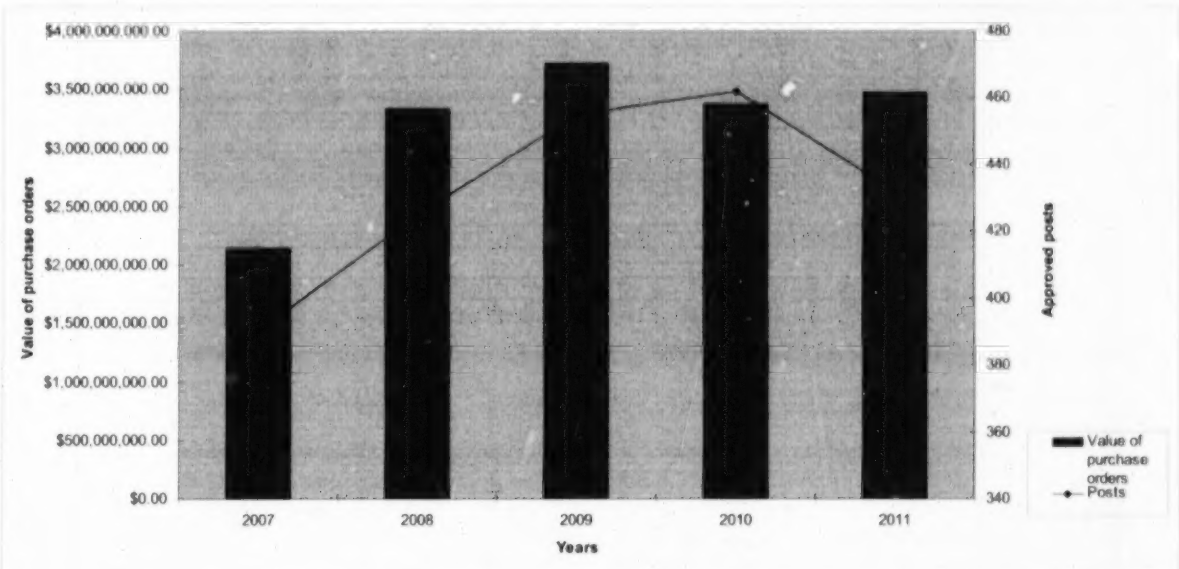
Procurement posts and value of purchase orders as a function of approved posts, 2007-2011

A. Procurement posts

	2007	*2008*	*2009*	*2010*	*2011*
A. Procurement Division	121	126	138	145	135
B. Field Missions	192	222	238	239	217
C. Offices away from Headquarters, tribunals and commissions	77	77	79	78	80
Regional Procurement Office					
Total	**390**	**425**	**455**	**462**	**432**

B. Value of purchase orders as a function of approved posts

(United States dollars)



Annex III

Cost-benefit analysis of the Regional Procurement Office

1. A cost-benefit analysis has been undertaken to identify the economic and qualitative impact of the Regional Procurement Office. The analysis compares the direct costs of procurement and the operating costs of the procurement function in the missions to the cost of providing the same functions in the Regional Procurement Office.

Procurement cost savings

2. The Regional Procurement Office enables missions to benefit from economies of scale by consolidating their requirements into a joint acquisition plan and establishing regional systems contracts. Since its establishment, the Regional Procurement Office achieved $26,337,192 in cost savings in comparison with previous contracts established locally and in administrative costs.

Administrative cost savings

3. In addition to the procurement costs savings achieved by the Regional Procurement Office, administrative cost savings were realized, as described below.

(a) Efficient utilization of resources

4. Greater utilization of staff resources was realized by reducing the number of solicitations for similar commodities by individual missions. In comparison, the consolidation of staff who conduct the procurement of joint acquisition of goods in the Regional Procurement Office, as opposed to staff conducting the same solicitations in multiple missions, lead to $1,214,750 estimated annual savings in administrative costs.

5. In addition, there is a streamlined and expedited decision-making process through the review of Regional Procurement Office cases by the Headquarters Committee on Contracts only as opposed to dual review by the local and Headquarters committees on contracts for mission procurement.

(b) Surge capacity for new start-up or expansion of missions

6. By providing surge capacity to the United Nations Mission in South Sudan (UNMISS) and the United Nations Interim Security Force for Abyei (UNISFA) in the start-up phase, the Regional Procurement Office has enabled the procurement function to commence without the need for the missions to have staff deployed on a temporary basis with the associated expenditures.

(c) Rest and recuperation

7. Since Entebbe is a family duty station, international staff are not entitled to rest and recuperation. As a result, nine Regional Procurement Office staff members are available for an additional 40 productive days per year. This equated to annual savings to the Organization of $80,676, as there is no need to pay for rest and recuperation days for those staff whose positions were allocated from the field missions to the Regional Procurement Office.

8. There is also the annual cost savings of $21,579 from United Nations flights to transport international staff members from duty stations to locations designated for rest and recuperation.

(d) Overhead

9. The salaries and benefits of the Regional Procurement Office are lower by $612,344 and $545,937 per year, respectively, for the same number of staff in comparison with that of the United Nations Organization Stabilization Mission in the Democratic Republic of the Congo and the African Union-United Nations Hybrid Operation in Darfur.

(e) The need of a third-party location (Regional Procurement Office) to improve the regional procurement process

10. The Regional Procurement Office will continue to provide the majority of missions' common requirements through a consolidated joint acquisition plan, resulting in improved effectiveness and efficiency and achieving economies of scale and reducing the footprint of individual missions to location-dependent local procurement activities.

11. Simultaneously, the Regional Procurement Office will work diligently with missions to transform existing common mission-specific requirements, channelling multiple processes into standardized, measured and systematic procurement processes in order to establish regional system contracts. This will entail improved internal controls while ensuring a faster process.

12. In summary, the following benefits are being realized by the Regional Procurement Office:

(a) Enhancement of the revised governance structure between the Department of Management and the Department of Field Support;

(b) Reduction of repetitive transactional costs;

(c) Provision of effective, flexible, timely and high-quality procurement support to missions;

(d) Realization of savings and administrative costs avoidance;

(e) Increased economies of scale through consolidation of requirements and decrease of mission overhead;

(f) Great utilization and opportunities for the local markets;

(g) Increased stability to expedite the procurement of material resources and services to new field missions and expanding missions in the region;

(h) Increase standardization in the procurement processes and implementation of procurement best practices;

(i) Decrease in vacancy rates owing to geographical remoteness to austere locations that contribute to a high staff attrition rate;

(j) Enhanced internal controls such as consistency in interpretation and application of regulations, rules and policies and standardization of requirements;

(k) Increase in the development capacity of staff by training, particularly in the areas of planning, requirement review as well as fraud prevention, ethics and integrity;

(l) Provision of standby acquisition capability for missions at start-up, such as UNMISS, UNISFA and the United Nations Support Office for the African Union Mission in Somalia.

Summary of total annual savings

(United States dollars)

Description	*Amount*
Annual overhead savings	612 344
Annual cost savings from rest and recuperation avoidance	80 676
Annual savings in efficient utilization of resources	1 214 750
Annual cost savings from United Nations flights to rest and recuperation designated locations	21 579
Joint acquisition plan — annual savings against budget	10 044 000
Total	**11 973 349**

Summary of other total savings[a]

(United States dollars)

Description	*Amount*
Joint acquisition plan — savings against purchase orders	973 893
Mission specific — savings against budget	15 319 300
Total	**16 293 193**

[a] Savings generated from one off purchase by missions.

13. In view of the achieved benefits described above, the Procurement Division, in coordination with the Department of Field Support, has expanded the services of the Regional Procurement Office in Entebbe to include all West African peacekeeping[a] and special political missions and offices. These missions participated in the meeting of the Regional Procurement Steering Group in October 2012.

14. While the Regional Procurement Office will continue to implement joint acquisition plan regional contracts and mission-specific contracts, the Procurement Division, from its Headquarters in New York, will implement all global systems contracts and air/ship chartering services contracts.

[a] United Nations Mission in Liberia, United Nations Operation in Côte d'Ivoire, United Nations Mission for the Referendum in Western Sahara, United Nations Integrated Peacebuilding Office in Guinea-Bissau, United Nations Integrated Peacebuilding Office in Sierra Leone, United Nations Regional Office for Central Africa, United Nations Office for West Africa.

Annex IV

Implementation of key performance indicators

Key performance indicators implemented

Title	*Description*
K004 — Headquarters Committee on Contracts acceptance cycle time	Average number of business days from Headquarters Committee on Contracts case creation to submission
K006 — Purchase order/contract creation cycle time	Average number of business days from bid-creation to purchase order/contract issuance
K008 — Purchase order release cycle time (not against contract)	Average number of business days from requisition receipt to purchase order issuance (not against established contract)
K009 — Purchase order release cycle time (against contract)	Average number of business days from requisition receipt to purchase order issuance (against established contract)
K010 — Sole vendor sourcing cases	Percentage of sole vendor sourcing cases
K011 — Headquarters Committee on Contracts returned cases	Percentage of cases returned at least once by the Headquarters Committee on Contracts
K014 — Vendor diversity	Percentage of invited vendors from developing countries, countries in transition and least developed countries
K015 — Headquarters Committee on Contracts ex post facto procurement	Number of Headquarters Committee on Contracts cases in ex post facto procurement

Key performance indicators pending implementation

Title	*Description*
K001 — Source selection plan development cycle time	Average number of business days from requisition receipt to signing of source selection plan by team, by section
K002 — Bid instrument release cycle time	Average number of business days from finalization of statement of work/specs to release of request for proposal/invitation to bid
K003 — Vendor selection cycle time	Average number of business days from finalization of technical review to completion of financial review of request for proposals

Title	*Description*
K005 — Headquarters Committee on Contracts acceptance cycle time	Average number of business days from Headquarters Committee on Contracts submission to Headquarters Committee on Contracts signation[a]
K012 — Output productivity	Percentage of requisitions with a final result
K013 — Vendor bid response rate	Percentage of invited vendors who have responded to a bid[b]
K016 — On-time cases	Percentage of total cases that meet the source selection plan target time
K017 — Requisitioner satisfaction rating	Average of rating from surveys given to requisitioners
K018 — New vendor processing	Percentage of submitted vendor applications that have been accepted, rejected or are still in progress[c]
K019 — Vendor outreach	Percentage of vendors who have attended a Procurement Division business seminar, that submitted an application, by country
K020 — Vendor acceptance/rejection cycle time	Average number of business days to approve/reject a vendor after submission of United Nations Global Marketplace application[c]
K021 — Vendor acceptance	Percentage of vendors accepted in less than 6 weeks, between 6 and 10 weeks, and in more than 10 weeks[c]

[a] Dependency on implementation of electronic signing off Headquarters Committee on Contracts minutes in e-CC by the Assistant Secretary-General for Central Support Services.

[b] Dependency on all buyers entering the response status of every vendor invited to bid.

[c] Requires United Nations Global Marketplace changes: dependency on availability of funding.

Annex V

Change in solicitation types for long-term air charter tenders

1. As stated in the report of the Secretary-General on United Nations air operations (A/65/738), the Department of Field Support and the Procurement Division in the Department of Management are replacing the invitation to bid with the request for proposal solicitation type with the view to allowing greater flexibility in the acquisition of air assets/services and achieving greater value for money.

2. The following issues with the current invitation to bid process have been identified:

- Reliance on certain types of aircraft in particular segments
- Limited ground support infrastructure may create dependency on certain types of aircraft
- Bids from a limited number of vendors
- Cost structure in solicitation documents and contracts are not in line with the industry best practices.

3. The change to the request for proposal solicitation method will mitigate such issues and improve competitiveness among vendors as the request for proposal will allow vendors to submit solutions rather than merely replying to a limited set of criteria. It will also broaden the basis upon which vendor selection is made by including performance attributes and encourage vendor innovation in terms of asset types, employment, deployment, redundancy and support. The United Nations further expects an increase in fleet flexibility (i.e., multi-role operational depth), improvement of fleet quality and air asset utilization. The International Civil Aviation Organization (ICAO) is tasked with the integration of essential parameters related to operational efficiencies, which will ultimately reduce air charter service costs.

4. Depending on input from the Department of Field Support and ICAO, it is expected that the proposed solicitation documents will be finalized by ICAO in January 2013 for presentation to senior management.

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Review of the efficiency of the administrative and financial functioning of the United Nations

Pilot project on the independent procurement challenge system

Report of the Secretary-General

Summary

In response to paragraph 16 of General Assembly resolution 62/269, the present report provides an update on the implementation of the pilot project on the independent procurement challenge system. It also provides information on the specific modalities of the procurement challenge system and related procedures, including possible legal and budgetary implications, in response to paragraph 13 of resolution 61/246. The Secretary-General has extended the pilot project until 30 June 2015 and expanded its scope in order to gain further experience in handling procurement challenges.

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I. Introduction

1. The present report is submitted in response to paragraph 13 of General Assembly resolution 61/246, in which the Assembly requested a report on the specific modalities of the bid protest system and related procedures, including possible legal and financial implications, and paragraph 16 of resolution 62/269, in which it requested the launch of the pilot project for the independent bid protest system and a report on the experience gained.

II. Background

2. A procurement challenge system was first proposed in a report of the Secretary-General on procurement reform (A/60/846/Add.5). Pursuant to General Assembly resolution 62/269, such a system was established on a pilot basis in the Secretariat in 2009.

3. The purpose of the procurement challenge system is to further enhance transparency in the procurement decision-making process (A/60/846/Add.5, para. 17). The system offers unsuccessful vendors that participated in tenders of the Organization the opportunity to file a procurement challenge on a post-award basis against a contract awarded by the United Nations. It also provides a mechanism for the Organization to take corrective action and/or provide a remedy when warranted. An effective procurement challenge system contributes to the improvement of procurement procedures and practices and strengthens internal control. Moreover, such a system supports good governance and accords with best practices in international public procurement.[1] As part of the pilot project, the experiences of other public organizations in this area were examined.

III. Launch of the pilot project

Establishment of the Award Review Board

4. The pilot project was launched in November 2009 with the establishment of the Award Review Board. The Chair of the Headquarters Committee on Contracts serves as the Registrar of the Board, and two staff members from the Committee's secretariat administratively support its operations. The Board has a roster of approved independent experts in procurement and procurement-related disputes who are called upon to provide written advice on the merits of a procurement challenge. For the purposes of the pilot project, eligibility for submitting a procurement challenge was limited to solicitations with an estimated value of at least $300,000 that were issued by the Procurement Division at Headquarters after November 2009. The main steps of the procurement challenge process are as follows:

[1] Article 67 of the United Nations Commission on International Trade Law Model Law on Public Procurement provides for the review by an independent review body of a decision or an action by a procuring entity or of the failure of a procuring entity to issue a decision. Likewise, the World Trade Organization Agreement on Government Procurement provides for a challenge procedure.

(a) **Submission of a procurement challenge**. An unsuccessful vendor requests a debriefing from the Procurement Division. If it is not satisfied with the debriefing, it may submit a procurement challenge to the Registrar of the Board within 10 business days of the debriefing;

(b) **Review by Award Review Board experts**. Once the Registrar confirms eligibility, the procurement challenge is assigned to a single Award Review Board expert or to a panel of three experts if the case is complex. The expert or panel of experts reviews the case with a view to determining whether the challenged procurement award accords with the evaluation and award criteria set out in the relevant solicitation documents, the applicable financial regulations and rules of the United Nations and the administrative issuances governing procurement. The expert findings and recommendations on the merits of the procurement challenge are set out in a written report. The experts may also make recommendations geared towards improving the quality of future solicitations or internal procurement procedures;

(c) **Decision-making**. The expert report is submitted to the Under-Secretary-General for Management for a final decision;

(d) **Notification/communication**. The Registrar communicates the final decision on the challenge to the vendor and the concerned internal parties.

Outcome and remedies

5. A procurement challenge is either denied or sustained. The challenger has the burden of proving the merits of its case. If the challenger fails to meet that burden, the procurement challenge will be denied. If the burden is met, the procurement challenge will be sustained, which gives rise to three possible remedies. First, the awarded contract may be limited to a one-year period instead of multiple years. This remedy would necessitate the prompt resolicitation of the requirement, to which the challenger would be invited. Second, the awarded contract may be cancelled. However, this remedy would necessitate the prior advice of the Office of Legal Affairs and the requisitioning office, in the light of potential contractual and operational impacts. Third, financial compensation up to a maximum of $50,000 may be granted to the challenger to cover the reimbursement of costs directly related to the procurement challenge procedure. Under the pilot project, attorney fees are excluded from such compensation. In addition, the experts may recommend other remedial action considered appropriate on the basis of their findings.

IV. Implementation of the pilot project

6. The launch of the pilot project entailed a number of start-up activities, including conducting research and benchmarking against existing challenge systems, consulting with internal stakeholders, external practitioners and academics, developing policies and procedures, establishing a database and developing information technology tools and procurement challenge forms. The Award Review Board secretariat also established an e-library composed of procurement challenge-related material for use by the Board experts. In addition, the secretariat identified and recommended a list of experts for consideration and approval by the Under-Secretary-General for Management and conducted an induction workshop for the

experts in 2009. In October 2009, the Procurement Division conducted training for its staff in performing debriefings and in procurement challenge procedures.

7. In its resolution 61/246, the General Assembly requested the inclusion of information, as appropriate, on the bid protest system on the website of the Procurement Division. In December 2009, relevant information was posted on the Procurement Division extranet (http://extranet.unsystem.org/pd/pilot_program.htm). In addition, eligible solicitations indicate the right of unsuccessful vendors to a debriefing and to submit a procurement challenge.

8. Between November 2009 and September 2012, the Procurement Division issued 779 solicitations, of which 459 were valued at $300,000 or more. During that same period, the Division conducted 52 debriefings, and 20 procurement challenges were submitted to the Registrar of the Award Review Board. Of those, 16 did not meet eligibility requirements. Two of the four remaining challenges were decided upon by the Under-Secretary-General for Management, taking into account reports by single Board experts: in one case the challenge was sustained, and in the other it was denied. The other two challenges were undecided as at the time of drafting of the present report. During the same period, the Board secretariat received a further 80 complaints unrelated to United Nations procurement actions.

V. Lessons learned from the pilot project

9. Despite the narrow scope of the pilot project and the modest number of challenges received, some lessons were learned, as summarized as follows:

(a) **Need for enhanced communication/outreach to vendors**. The main causes of requests for debriefing and procurement challenges were ambiguities found in some of the solicitation instruments, the revision of requirements due to operational reasons after initial solicitation issuance and the lack of understanding by vendors of United Nations procurement procedures;

(b) **Importance of debriefing**. The debriefing sessions proved to be useful to vendors in gaining a better understanding of why their proposals or bids were not successful which may assist them with future solicitations. Most vendors were satisfied with the debriefings conducted by the Procurement Division and did not submit procurement challenges. The debriefings provided opportunities to the Division to provide the vendor community with a better understanding of United Nations procurement policies and procedures. Feedback from the Division and requisitioner staff who participated in the debriefings was positive, indicating better understanding of the market's needs. Interaction with the vendors led to the recognition of the need to make changes to the wording of solicitation instruments. Another lesson learned was the continuing need to support and enhance internal capacity, both in the Division and in requisitioner offices, conduct the debriefings and channel lessons learned into improving the acquisition process;

(c) **Need for legal assistance**. In one challenge case, the vendor's legal counsel participated in the debriefing without the presence of the Office of Legal Affairs, which was disadvantageous to the United Nations. The Board expert who reviewed the case recommended that the United Nations arrange for legal representation at debriefings when the challenger is represented by counsel. It is

considered advisable that the future procurement challenge system provide for the active involvement of the Office of Legal Affairs on an "as and when needed" basis;

(d) **Vendor interest in the procurement challenge system**. The vendor community appears interested in the procurement challenge system. For instance, although not eligible under the pilot project, several vendors in peacekeeping locations submitted procurement challenges regarding contract awards made by peacekeeping missions. Vendor interest, coupled with an expanded system for procurement challenges, will provide further opportunities to learn lessons and provide management at Headquarters with an additional vantage point from which to assess how well the acquisition process is functioning in other duty stations;

(e) **Improved transparency**. The debriefings conducted by the Procurement Division have already led to improvements in the text of the regret letter, which now includes information on both the debriefing and the procurement challenge procedures. The solicitation documents also include a section on procurement challenge procedures and provide a link to the Division's website.

VI. Expanded scope and extension of the pilot project

10. While lessons have been learned, the Secretary-General considers that further experience under the pilot project is both necessary and desirable. Bearing in mind the challenge system's utility and contributions to enhancing internal procedures and practices, the pilot project has been extended until 30 June 2015, with an expanded scope as follows:

(a) **Expanded scope**. The eligibility threshold will be lowered from $300,000 to $200,000, and solicitations issued by the Regional Procurement Office in Entebbe, Uganda, which is an integral part of the Procurement Division, will also be eligible for procurement challenges. It is estimated that these two changes will result in a 30 per cent increase in the number of procurement awards subject to challenge;

(b) **Introduction of an alternative dispute resolution procedure**. Research indicates that alternative dispute resolution has been effectively used by some Government agencies in dealing with procurement challenges. Alternative dispute resolution is a voluntary, informal process for dealing with disputes whereby a third party will facilitate the discussion of the parties towards resolution. It is considered useful to include an alternative dispute resolution procedure in the procurement challenge system as an option. In broad terms, the process would involve an Award Review Board expert, who would serve as the third party and meet informally with authorized representatives of the United Nations and the vendor. Alternative dispute resolution can be expeditious in resolving disputes, an important consideration for all parties when dealing with procurement challenges;

(c) **Financial compensation**. The current maximum financial compensation payable to a successful challenger is $50,000 to cover the cost of the procurement challenge, excluding attorney fees. However, research indicates that, when a procurement challenge is sustained, some Government agencies permit the reimbursement of reasonable attorney's fees. The Secretary-General has thus decided to include the reimbursement of reasonable attorney's fees within the

maximum amount. This is considered fair, as the vendor is reimbursed for an out-of-pocket expense arising out of a sustained procurement challenge;

(d) **Systematic training**. To support the expanded scope, the Procurement Division will offer additional training to its Procurement Officers, including those serving in the Regional Procurement Office, and requisitioner offices that participate in the debriefings.

11. Taking into account the further experience that will be gained under the pilot project going forward, the Secretary-General will provide the General Assembly with his recommendations on future budgetary and staffing requirements to support the procurement challenge system after 2014. Until then, the extended pilot project will, as has been the case, continue to be accommodated within the existing resources of the secretariat of the Headquarters Committee on Contracts, the Procurement Division and requisitioner offices.

VII. Conclusions and recommendations

12. **It is recommended that the General Assembly:**

(a) **Take note of the report and the extension of the pilot project until 30 June 2015;**

(b) **Request the Secretary-General to report to the Assembly at its sixty-ninth session on the experience gained under the extended pilot project and provide the Assembly with his proposals, including budgetary and staffing implications, for establishing a formal procurement challenge system in the United Nations.**